SALE OF BUSINESS

THE BUILDUP METHOD OF DISCOUNT RATES-SCHILTZ

Category	Description	Cap Rate	
1	Established businesses with a strong trade position, well financed, have depth of management, whose past earnings have been stable and whose future is highly predictable.	Risk Premium Risk Free Rate **Cap Rate***	6% to 10% +5 +5 **11% 15%**
2	Established businesses in a more competitive industry that are well financed, have depth of management, have stable past earnings, and whose future is fairly predictable.	Risk Premium Risk Free Rate **Cap Rate***	11% to 15% +5 +5 **16% 20%**
3	Businesses in a highly competitive industry requiring little capital to enter, no management depth, element of risk is high although past record may be good.	Risk Premium Risk Free Rate **Cap Rate***	16% to 20% +5% +5% **21% 25%**
4	Small businesses that depend upon the special skill of one or two people. Larger established businesses that are highly cyclical in nature. In both cases, deviate widely from projections.	Risk Premium Risk Free Rate **Cap Rate***	21% to 25% +5% +5% **26% 30%**
5	Small "one-man" businesses of a personal service nature, where the transferability of the income stream is in question.	Risk Premium Risk Free Rate **Cap Rate***	26% to 30% +5% +5% **31% 35%**

From: James H. Schiltz, editor of Business Valuation Review, "A Rational approach to Capitalization Rates for Discounting the Future Income Stream of a Closely Held Company", The Financial Planner, January, 1982.

*Schiltz's method computes the risk premium. We then add the risk free rate (T- Bill rate) to arrive at the appropriate cap rate.